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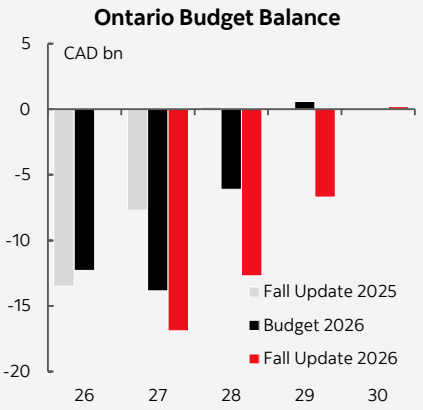
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**Contributors**

**Mitch Villeneuve**
Director, Economic Policy
Scotiabank Economics
416.350.1175
mitch.villeneuve@scotiabank.com

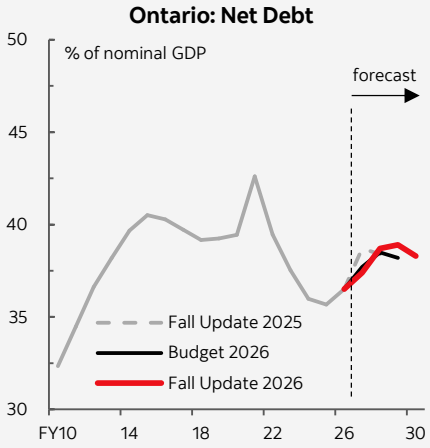
**Anthony Bambokian**
Economist
Scotiabank Economics
416.866.4211
anthony.bambokian@scotiabank.com


**Chart 1**




Sources: Scotiabank Economics, Ontario Finance, FAO.

**Chart 2**




Sources: Scotiabank Economics, Ontario Finance.

# Ontario: 2026–27 Mid-Year Update

## NEW MEASURES, WEAKER TAX REVENUES DRIVE INCREASED DEFICIT OUTLOOK

- **Bottom line: The deficit forecasts have increased due to near-term spending pressures, a weaker personal income tax outlook, and the costs of aligning with the federal Productivity Super- and Mega Deductions. Given the economic headwinds that continue to weigh on the province, it is a reasonable time to use up some of the fiscal room it has rebuilt since the end of the pandemic (especially for measures that will boost productivity) and there are upside risks to growth. However, the higher interest rate environment is a reminder of the importance of limiting the increase in debt.**
- **Budget balance: Deficit of $16.9 bn (1.3% of nominal GDP) in FY27, steadily falling before turning into a small surplus in FY30 (chart 1).**
- **Economic assumptions: Real GDP growth revised down to 0.5% for 2026 and 1.5% for 2027, but nominal GDP revised higher for most years.**
- **Net debt: Projected to rise from 36.5% in FY26 to 38.9% by FY29, before dropping to 38.3% in FY30 (chart 2).**
- **Borrowing requirements: FY27 revised higher to $51.1 bn from $47.2 bn, falling to $48.0 bn in FY27 and $45.2 bn in FY28.**

## OUR TAKE

**The economic outlook has been revised lower since Budget 2026, reflecting the ongoing effects of trade tensions with the US, higher oil prices, and heightened global volatility.** The assumption for real GDP growth has been halved to 0.5% for 2026 and revised down from 1.7% to 1.5% for 2027 (before picking up to 1.8% in 2028 and 2.0% in 2029). However, the recent rise in inflation has led to an increase in expected nominal GDP, which will mitigate the impact of the weaker growth on government revenues. In addition, Q2 GDP came in very strongly, which could lead to expected growth being revised up in a later forecast. Our latest in-house forecast anticipates real GDP growth in Ontario of 0.8% this year and 2.1% next.

**The revenue outlook has been materially downgraded, with further revisions to come.** Total revenue in FY27 is slightly higher than previously expected, due to a change in the assumed timing of federal transfers related to the HST rebate on new homes, but the overall revenue outlook has been revised lower due to weaker personal income tax assessments and the cost of the Productivity Super-Deduction—despite stronger corporate profits than previously assumed. Overall, revenue growth is expected to slow from around 4% this year to 2.4% next year, before rebounding to around 4% in future years. However, revenues are likely to be further revised lower in the next forecast round, as today's revenue outlook does not include the estimated cost of aligning with the federal Productivity Mega Deduction (roughly $2 bn per year)—which is still being finalized. The overall forecast reserve has been increased to help incorporate the cost of this important new measure into the fiscal track.

**Total expenses are projected to be higher this year but lower in future years than previously estimated.** The forecasted path for health and education spending has been revised downward, partially offset by slightly higher debt servicing obligations (driven by higher interest rates and deficit projections). However, FY27 spending has been revised up through a $3.8 bn top-up to the contingency fund, which will help address pressures—including needs in the health system and tariff-related industry supports (such as the

steel and auto supports announced last week). Overall, expenses are forecast to grow by approximately 4.7% in FY27 before remaining stable in FY28 (which will require a high level of fiscal discipline to achieve in the face of ongoing spending pressures), before rising 1.4% the following year.

**The resulting fiscal outlook anticipates higher deficits and a lengthened path towards a balanced budget.** The deficit for FY27 has been revised up to $16.9bn (1.3% of nominal GDP) from the $13.8bn estimated in Budget 2026. Additionally, the fiscal outlook projects larger deficits over a longer time horizon than previously projected, at $12.7bn and $6.7bn in FY28 and FY29, respectively, before returning to a balanced budget by FY30 (rather than by FY29 as anticipated in the Spring and FY28 as anticipated last Fall).

**The debt burden is projected to rise higher and longer than previously anticipated but expected to remain below the government's 40% target limit.** Net debt as a share of GDP in FY27 is now forecasted to come in slightly lower than anticipated in Budget 2026 thanks to a stronger handoff from FY26 and higher expected nominal GDP, but the debt burden ratio is expected to peak a year later (and slightly higher) than previously anticipated—reaching 38.9% in FY29, before declining slightly to 38.3% in FY30. Net debt as a percentage of revenue remains elevated and is projected to continue to hover above the province's 200% target for the remainder of the outlook, peaking at approximately 220% in FY29, before declining slightly the following year to 217%. The interest-to-revenue ratio is expected to rise to the province's 7.5% target limit by FY29, which is a 0.4ppts increase over the previous Budget's estimates and would be a 2 ppt increase from FY24.

**Planned FY27 long-term borrowing has been revised up from $47.2bn to $51.1bn.** 71% of this had been completed as of October 8th. Expected borrowing for the next two years has also been revised higher, to $48.0 bn and $45.2 bn, respectively, driven by the higher anticipated deficits. Alternative growth scenarios provided in the Budget illustrate two very contrasting paths on how the province borrows over the next three years. Should economic growth prove to be faster than currently predicted, long-term borrowing would be expected to decrease by $15.7bn. However, a slower-growth scenario outlines a path where long-term borrowing increases by $13.8 billion over the three-year period.

**Many domestic and global headwinds remain, as do reasons for optimism.** Though many tariffs on Canadian exports to the US remain in place and continue to evolve, affecting sectors disproportionately and prompting fiscal support responses by the federal and provincial governments, it remains a possibility that the state of trade tensions have reached their peak. Meanwhile, efforts towards de-escalating tensions in the Middle East remain ongoing. Should constructive negotiations resume, and a path towards tariff relief across industries unfold in the near future, coupled with the easing of global supply chains and inflationary pressures, Ontario could see improvements in its fiscal position sooner rather than later.

**Table 1: Ontario - Medium-Term Fiscal Projections**

| | FY26 | | FY27 | | FY28 | | FY29 | | FY30 |
|---|---|---|---|---|---|---|---|---|---|
| | Bud.'26 | Final | Bud.'26 | Oct. '26 | Bud.'26 | Oct. '26 | Bud.'26 | Oct. '26 | Oct. '26 |
| **Total Revenue** | **226.6** | **223.3** | **231.9** | **232.6** | **243.4** | **238.2** | **254.1** | **247.9** | **257.8** |
| **Total Expenses** | **238.4** | **236.3** | **244.2** | **247.3** | **247.5** | **247.3** | **251.1** | **250.8** | **253.8** |
| Reserve | 0.5 | - | 1.5 | 2.2 | 2.0 | 3.6 | 2.5 | 3.8 | 3.8 |
| **Budget Balance** | **(12.3)** | **(13.0)** | **(13.8)** | **(16.9)** | **(6.1)** | **(12.7)** | **0.6** | **(6.7)** | **0.2** |
| *% of GDP* | (1.0) | (1.0) | (1.1) | (1.3) | (0.5) | (0.9) | 0.0 | (0.5) | 0.0 |
| Net Debt (% of GDP) | 36.8 | 36.5 | 37.7 | 37.4 | 38.5 | 38.7 | 38.2 | 38.9 | 38.3 |
| Debt Service (% of Revenue) | 6.3 | 6.0 | 6.7 | 6.7 | 6.9 | 7.2 | 7.1 | 7.5 | 7.5 |

Sources: Scotiabank Economics, Ontario Finance.

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